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FISCAL IMPACT STATEMENT

LS 7678

BILL NUMBER: SB 480

NOTE PREPARED: Apr 9, 2007

BILL AMENDED: Apr 9, 2007

SUBJECT: Veterans' Benefits.

FIRST AUTHOR: Sen. Wyss

FIRST SPONSOR: Rep. Reske

BILL STATUS: 2nd Reading - 2nd House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Teachers' Retirement Fund*: This bill grants, under certain conditions, up to six years of service credit in the Teachers' Retirement Fund for a member who served on active duty before February 1, 1955.

Military Income Deduction: The bill exempts active duty military pay earned by members of the National Guard and Reserves from the individual income tax. The bill also phases in over eight years the deduction of all military pay, retirement benefits, and survivor's benefits from the individual income tax. It provides that a taxpayer may not claim both the new exemption and the existing deduction for military income.

Employment Criteria: The bill establishes employment criteria for employees of the Indiana Department of Veterans' Affairs and local service officers.

Power of Attorney Requirement: The bill provides that a power of attorney for prosecution of veterans' benefits runs to an agency or individual authorized by the Department.

Tuition Exemption & National Guard Students & Tuition Exemption for Persons Stationed in Indiana: The bill provides various forms of tuition assistance at state educational institutions for certain active duty military personnel and their dependents and certain veterans.

Freedom of Choice Grants: It provides that veterans and children of veterans who qualify for tuition exemptions at state universities but will attend private institutions of higher learning are entitled to Freedom of Choice grants.

High School Diplomas for Veterans from the Korean and Vietnam Conflicts: It also expands the high school diploma program for eligible veterans to include veterans of the Korean and Vietnam conflicts.

Adoption of Rules: The bill authorizes the: (1) advisory board of the Division of Professional Standards of the Department of Education; and (2) various professional licensing boards; to adopt rules to expedite the licensure of individuals whose spouses are stationed on active duty in Indiana. The bill also makes conforming amendments.

Effective Date: July 1, 2007; January 1, 2008.

Explanation of State Expenditures: *High School Diplomas for Veterans from the Korean and Vietnam Conflicts:* The bill modifies the definition of eligible veteran to include persons who fought in the Korean and Vietnam conflicts. Under current law, eligible veterans are entitled to an honorary high school diploma. Under the bill, the Department of Education (DOE) would incur expenditures to produce additional diplomas for Korean and Vietnam veterans, and the Indiana Department of Veterans Affairs (IDVA) would incur additional administrative responsibilities to verify the eligibility of veterans from the Korean and Vietnam conflicts. The fiscal impact to state expenditures is currently indeterminable but expected to be minimal.

Background Information: Projections from the United States Department of Veterans' Affairs indicate that approximately 230,000 veterans from the Korean and Vietnam conflicts currently live in Indiana. There could be additional veterans living out of state that left an Indiana high school to enter the Vietnam or Korean conflicts that may qualify. There may also be veterans living in Indiana that attended an out-of-state high school.

During the 2002 session, the Indiana legislature passed P.L. 127-2002. Since that time, a total of 276 honorary diplomas were awarded to World War I and World War II veterans that dropped out of high school in order to enlist in the armed forces of the United States. Of the 276 diplomas, the DOE has awarded 47 diplomas at the state level, versus 229 diplomas awarded at the local school district level. The DOE reports that total costs to produce a diploma are dependent on the type of diploma created, and are minimal.

Tuition Exemption for Persons Stationed in Indiana: Military personnel stationed in Indiana would be able to pay the resident tuition and fees instead of the out-of-state fees for themselves and for their dependents. The provision would reduce the amount of tuition the university receives for these students, but the overall impact on universities is probably minor. According to the Defense Manpower Data Center there were 869 active duty members of the U.S. armed forces stationed in Indiana as of January 11, 2006. (Note: The totals in 2004 and 2005 were reportedly 994 and 1,014, respectively.) The number of these active duty service personnel who currently attend a state university, or have a dependent, or multiple dependents, that attend; or who may in the future, is unknown. Out-of-state fees range from about \$2,500 to \$19,000 more per year than resident fees.

Adoption of Rules: The bill allows: the Division of Professional Standards within the Department of Education (DOE), a Health Professions Standards Board (as defined in IC 25-1-9-1), and a Professional Standards Licensing Board (as defined in IC 25-1-11-1); to adopt rules to establish procedures to expedite the issuance, renewal, or reinstatement of a license, certificate, registration, or permit, of a person whose spouse served on active duty and is assigned to a duty station in Indiana. All entities should be able to do so within their existing level of resources.

Military Income Deduction: The Department of State Revenue (DOR) will incur additional expenses to

revise tax forms, instructions, and computer programs to reflect the deduction changes relating to certain active duty military pay and military service income in general. The DOR's current level of resources should be sufficient to implement these changes.

Power of Attorney Requirement: The bill allows the IDVA to act as power of attorney and authorize action on behalf of a veteran in obtaining a benefit or an advantage provided under Indiana law. As proposed, the IDVA reports that it would experience an increase in workload. However, it should be able to incorporate the requirement within its existing level of resources. The IDVA would be responsible for scanning, digitally storing, and reviewing a veteran's application. The IDVA would also be responsible for representing a veteran during an appeals process, should one take place.

(Revised) Teachers' Retirement Fund: There are no specific data concerning the number of teachers who would be affected by this change. The TRF has identified 368 members with military service; however, the Controller of the TRF has stated that the 368 is understated because these data are from the old computer system in which the data was not split out from the types of service when downloaded into TRF's current computer system. In addition, the TRF actuary was not able to provide an estimate because of the lack of sufficient data.

For illustrative purposes, the additional liability generated would be approximately \$6,446 per person, per year of military service. There are 332 school corporations, including the 39 charter school corporations. *If* each school corporation had one person who qualifies and that person had three years of military service, the estimated unfunded liability would be approximately to \$6.4 M.

The actual increase in annual payout cost will depend upon the number of teachers affected, their military service, their age, and accrued TRF service characteristics. The fund affected is the state General Fund for the Pre-1996 Fund (Old Plan).

(Revised) Tuition and Fees Exemption: The bill exempts veterans who listed Indiana as their residence when they enlisted and suffered service-connected disability after September 10, 2001, and before the conclusion of the war on terror from all tuition and fees at state educational institutions. An eligible veteran must attempt to obtain alternative financial aid before being awarded a tuition exemption.

As of 2005 there were about 46,078, or 8.6%, of the approximately 534,000 Indiana veterans who received disability compensation. It is also estimated that between 20,000 and 30,000 persons have served in the military since September 10, 2001. The number of veterans could annually increase by 5,000 to 6,000 until the war on terror ends. If about 8.6% of the veterans with service after September 10, 2001, suffered a disability, then between 1,720 and 2,580 veterans might qualify for these benefits. The number that might qualify could increase by 430 to 516 per year. It is unknown how many veterans would take advantage of this new program. The bill also requires the eligible veteran to provide proof that they have attempted to obtain alternative financial aid.

The State Student Assistance Commission (SSAC) might require some additional resources to administer the program. SSAC would probably need some additional personnel and computer modifications to process and monitor the exemptions and grants.

Background Information: This program is similar to the fee remission program SSAC administers for children and spouses of certain disabled or deceased veterans. For FY 2006, 5,063 individuals participated in the fee remission program, and the average cost to the state was \$3,197 per student. SSAC

projects the cost to increase by about 6% per year. The per student cost in the bill would be less since the cost is reduced by any program under federal law, National Guard Tuition Supplement Program, or other sources.

If 500 (or about 25%) of the potential eligible veterans attended a state educational institution under this new program with the average fee remission for FY 2008 of \$3,390, the total amount of fee remissions would be about \$1.7 M statewide.

(Revised) *Freedom of Choice Grants*: The bill also makes the Freedom of Choice Grant available if the veteran attends a private school. The grant is not to exceed the average educational costs assessed at state educational institutions. The following table shows the number of grants and the dollar amount of the Freedom of Choice Grants. The availability of these grants are subject to appropriation levels.

Year	Students	Amount	Average Grant
2001	10,338	\$27,053,524	\$2,617
2002	10,665	\$28,053,624	\$2,630
2003	11,828	\$34,091,366	\$2,882
2004	11,861	\$37,883,504	\$3,194
2005	12,045	\$37,962,252	\$3,152
2006	11,856	\$41,505,550	\$3,501

(Revised) *National Guard Students*: The bill would extend the length of time a member of the National Guard can receive the grant after they leave service by the amount of time they were on active duty. The bill might increase the number of grants. The following table gives the number of grants and dollar amount of the Indiana National Guard Supplemental Grant Program. For every additional 30 students that might be eligible for a grant of \$3,330 under the bill for FY 2008, the impact would be about \$100,000. These grants are subject to appropriation levels.

Year	Students	Amount	Average Grant
2001	503	\$1,026,094	\$2,040
2002	861	\$1,842,824	\$2,140
2003	923	\$2,214,787	\$2,400
2004	841	\$2,215,806	\$2,635
2005	780	\$2,120,394	\$2,718
2006	903	\$2,740,499	\$3,035

Explanation of State Revenues: (Revised) *Military Income Deduction*: The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers receiving military service income. The

additional revenue loss from the bill could potentially total at least \$5.0 M to \$5.5 M in FY 2009, with the revenue loss exceeding these levels in subsequent years as a full deduction for military income is phased in over eight years. Once the full deduction is effective, the additional revenue loss could potentially range from \$20.0 M to \$20.5 M beginning in FY 2016. The revenue loss could increase by about 1.5% annually thereafter.

Background Information: The bill makes the following two changes:

- (1) The bill provides for a full deduction for active duty pay earned by Armed Forces Reserve and National Guard members in lieu of the current \$2,000 deduction. (Note: Currently, combat pay is excluded from federal gross income and, as a result, is excluded from state AGI.)
- (2) The bill increases the current \$2,000 deduction for all other military service income, including retirement income, as specified in the table below.

Tax Year	Deduction for Military Service Income
	Greater of \$5,000 or
2008	12.5% of the individual's military income
2009	25% of the individual's military income
2010	37.5% of the individual's military income
2011	50% of the individual's military income
2012	62.5% of the individual's military income
2013	75% of the individual's military income
2014	87.5% of the individual's military income
2015 and after	100% of the individual's military income

Since the bill is effective beginning in tax year 2008, the fiscal impact would begin in FY 2009. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Under current statute, a taxpayer may deduct up to \$2,000 in military service income from state AGI. This includes military retirement provided the recipient is 60 years old or older. State tax data indicates that 36,530 taxpayers claimed the deduction for military service pay and retirement benefits in tax year 2004, deducting approximately \$72.5 M in military pay and retirement benefits. This amount resulted in a revenue loss of about \$2.5 M. Based on U.S. Department of Defense (DOD) military census and pay rate data, it is estimated that about 35% of the annual total amount deducted under the current \$2,000 deduction is attributable to Indiana taxpayers earning active duty pay during the year, with the remainder attributable to National Guard or reserve pay and retirement benefits. The full deduction for active duty pay for Armed Forces Reserve and National Guard members and the increase from \$2,000 to \$5,000 in the deduction for other military income in tax year 2008 is estimated to generate a revenue loss of about \$5.0 M to \$5.5 M in FY 2009. The full deduction for all military income beginning in tax year 2015, is estimated to generate a revenue loss of about \$20.0 M to \$20.5 M in FY 2016.

Explanation of Local Expenditures: (Revised) *Teachers' Retirement Fund*: The 1996 TRF Plan (New Plan) is actuarially funded with a level percent of payroll, currently 7%. It is unlikely that this bill will require an increase from the current level percent of payroll.

High School Diplomas for Veterans from the Korean and Vietnam Conflicts: See *Explanation of State Expenditures*.

Explanation of Local Revenues: *Military Income Deduction*: Because the proposed increase in the military service income deduction would decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: Indiana Department of Veterans' Affairs; Department of Education; State Universities and Colleges; Health Professions Standards Boards; Professional Standards Licensing Boards; Department of State Revenue; Teachers' Retirement Fund; State Student Assistance Commission.

Local Agencies Affected: School corporations. Counties with local option income taxes.

Information Sources: Tom Applegate, Indiana Department of Veterans' Affairs; <http://usmilitary.about.com/library/milinfo/statefacts/blin.htm>; Jeff Zaring, Department of Education; OFMA Income Tax databases, 1996-2004; Deborah K. Williamson, U.S. Department of Defense, Defense Manpower Data Center, (831) 583-2400; Matthew Torres, U. S. Department of Defense, Defense Manpower Data Center (831) 583-2500; Gabriel Roeder Smith & Co., actuaries for TRF, 1-800-521-0498.; Tom Abbett, Controller, Teachers' Retirement Fund, 317-232-3826; State Student Assistance Commission budget submission.

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